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Managing Your Vendor File

Brought to you By:

**RECAP, Inc.
&
170 Systems, Inc.**

As part of March 2005 Webcast

**[Vendor Master Chaos:
Are Materials Procure-to-Pay Risks Lurking?](#)**

For further information Contact:

Jon Casher
RECAP, Inc.
(973) 697-6430
www.recapinc.com

Sales
170 Systems, Inc.
800-788-6170
<http://www.170systems.com/>

Overview

How strong are your internal controls for maintaining the master vendor file? Be honest. Nobody enjoys maintaining a clean master vendor file. It is tedious work that is often overlooked. And yet a dirty master vendor file puts your company at serious risk for:

- Procure-to-pay fraud
- Non-compliance with government regulations
- Duplicate payment errors
- Poor cash management
- Second-rate purchasing decisions

With Sarbanes-Oxley 404 attestations in full swing, auditors are scrutinizing controls related to the master vendor file. Does a serious material weakness lurk in your vendor master processes?

Please join Jon Casher and Rakesh Shukla to learn best practice internal controls for your master vendor files. Learn also how business process automation and imaging technologies can be leveraged to streamline these controls without sacrificing compliance.

Click [here](#) to view the recording and download the complete set of slides for the March 16th webcast with Jon Casher titled [Vendor Master Chaos: Are Materials Procure-to-Pay Risks Lurking?](#)

About RECAP, Inc.

RECAP is a leading provider of financial operations consulting services. Our clients include many of the world's largest and most respected organizations, including half of the top ten U.S. banks. Our services include:

- Payment Recovery,
- Escheatment Reduction,
- Vendor Management,
- Vendor Leverage, and
- A/P Operations Consulting services.

RECAP was founded in 1989 by Bob Metzger and Jon Casher. Prior to forming RECAP, Bob served as the Vice President of Accounting Services at Goldman Sachs and Company and as a Vice President at Citibank, N.A. running the Corporate Payables Department. Jon was the President of an information technology consulting firm responsible for the design and development of computer-based financial systems. Our clients range across many industries including: banking, investment banking, non-bank credit cards, insurance, universities, healthcare, travel services, information services, communication, publishing and others

About 170 Systems, Inc.

170 Systems, Inc. is the leading global provider of software products and services that capture and manage all of the information associated with core financial functions, transforming them into consistent, automated, “best practices” business processes that ensure sustainable compliance. Combining best-of-breed business process automation and imaging technologies, the 170 MarkView solution provides seamless integration with ERP systems, including the Oracle E-Business Suite and PeopleSoft Financial Management, resulting in significant cost reduction, improved efficiency and enhanced visibility for enterprises. 170 MarkView is deployed by Global 1000 enterprises across a wide range of industries in more than 40 countries.

Jonathan D. Casher is Chairman of RECAP, Inc. a Financial Operations consulting firm headquartered in Oak Ridge, NJ that he co-founded in 1989. He is responsible for strategic direction of the firm. He is also President of Casher Associates, Inc., an Information Technology consulting firm based in Needham, MA that he founded in 1976. He is the author of two books, numerous articles, and is a frequent speaker on a wide range of financial operations and information technology issues.

Managing Your Vendor File

We all think we know why vendor files grow, but it's useful to review some of the things that cause growth you might not have realized. Five years ago, the vendor names that appeared most often in a typical vendor file were IBM and AT&T with variations on spacing, use of periods and spelling out the name in full. More recently, Verizon and MCI are the vendors that we find most often. If you've been reading the papers lately, AT&T will become SBC or SBC will become AT&T and MCI, formerly WorldCom, may become part of Verizon just as Bell Atlantic, GTE, Nynex and a whole bunch of others became Verizon. Then again, MCI may become part of Qwest.

Companies move, but even more frequently, they change banks and their lock box addresses change. They don't send you a change of address notice, they simply send you an invoice with a new remit to address. If you can't find it in your vendor file - you add it!

As you and your suppliers merge or spin off companies or do both, the need for new entries also causes your file to grow. And the more they grow, they faster they grow and the more they get out of control.

The need to manage your vendor file is clear; the benefits and how best to proceed are less obvious. This article addresses the latter - why and how to manage your vendor file.

Why You Should Manage Your Vendor File

Managing a vendor file may seem to be a mundane clerical task. The implications of not managing may be significant. Four key reasons for

paying attention to how your vendor file is managed are:

- Reduce the potential for fraud
- Reduce duplicate payments
- Know how much money you're spending and who you're spending it with
- Save money by purchasing, processing and paying smarter

How to Manage Your Vendor File

A Vendor Management program should include the following activities:

Vendor Verification

It's often surprising how little a company may know about its vendors. The capabilities and financial stability of a vendor can be critical to its ability to deliver goods and/or services of appropriate quality within agreed upon time frames.

Before adding a vendor to your vendor file, check to see if the vendor is legitimate. Check your personnel files to see if the vendor is an employee or related to an employee. See if the phone number, taxpayer id or address matches that of an employee. Use the Internet or one of several CD ROM databases to verify the vendor's name, address and telephone number. If you're spending or committing to spend more than a certain amount, use a credit rating service.

Send every vendor a W9 or a substitute W9 and make sure that a signed form is returned. You can use a substitute W9 to collect additional information about the vendor. Basic information you may want to request includes NAICS (North American Industry

Classification System) codes that are replacing Standard Industry Codes, taxpayer identifiers, telephone numbers, type of organization, types of products or services, how long vendors have been in business, and size. Minority vendor status and women owned business information are also important. Having a signed W9 form can help ensure that you file 1099s appropriately and reduces the likelihood of B-notices from the IRS.

Vendor Setup

There are many ways of specifying a vendor's name and address. A one page list of rules to use for setting up vendor names will reduce the likelihood of not finding a vendor or adding a vendor that already exists.

Addresses should be set up to conform to United State Postal Service (USPS) addressing guidelines. If you already have a vendor file with inconsistent addressing rules, a USPS certified mailing house can review your file to normalize and flag and fix addresses that do not conform.

If you have vendors with foreign addresses, pay careful attention to how you set up addresses as foreign payments can easily get lost in the mail. Only some mailing houses are equipped to analyze foreign addresses.

Decide what information you want to put into your accounts payable and purchasing system(s) and what information you may want in separate databases or in paper files. Low cost imaging in conjunction with simple databases allow you to access information from W9s and other forms quickly without a lot of effort in processing the information when it is received. Use the Internet to find out and capture additional background information. With some database packages, you can link directly to relevant Internet pages.

Vendor File Purge

On a regular basis, inactive vendors should be removed so that a payment is not accidentally made to the wrong vendor or sent to an address that is no longer current.

This is usually a straightforward process that can be done automatically with the software provided with most accounts payable systems.

Vendor File Cleanup

You should eliminate redundant (duplicate) and obsolete vendors and link related vendors. If vendors have merged, changed their names or changed their addresses (even their lock box addresses), the number of redundant and obsolete entries quickly grows. A vendor file that is "clean" at the start of the year, can end up with many redundant and obsolete records by the end of the year.

Before you eliminate redundant and obsolete vendors, consolidate vendors into groups so that related vendors are linked together to enable meaningful reporting. You may want to group related vendors more than one way – you may want to link subsidiaries to their parents and you may want to link franchisees to their franchisers.

The first time you do a vendor file cleanup, a lot of work is required but the effort is critical to achieving significant payoffs. You'll find a lot of redundant and related vendor records for federal, state and local government agencies, companies with many subsidiaries and companies with many locations or lock box addresses. Third party services such as those provided by RECAP can do much of the work for you.

Analysis

After you've cleaned up your vendor file, you should be able to analyze your

data to better identify who you're doing business with and how much business you're doing with individual vendors and groups of vendors.

These analyses should sharpen your focus. Prioritize and categorize so that your focus is on the areas with the greatest potential for savings or leverage. One useful way of looking at expenditures is to look at high versus low dollars. Another is high versus low transaction volumes. See if your primary focus should be on reducing the number of vendors, better control of who's buying, getting better pricing, or processing more efficiently.

Purchase, Process and Pay Smarter

Once you've completed some analysis you can really reap some dividends. By knowing how and where you're spending, you can quickly identify the magnitude of potential opportunities.

With better information about spending, you can negotiate better deals. You'll have better information about where you are and are not buying from and better ideas as to how much you are and should be spending. Decide whether changes in procurement guidelines are needed. Decide whether to eliminate or consolidate vendors.

Before you cut back too far on the number of vendors, make sure you understand the exposure and risks. Some of your vendors may also be your customers or potential customers. Some vendors may provide excellent service and/or products to meet the needs of some parts of your company but not be able to meet the needs of others in a timely and cost effective manner. Remember that doing business with local companies helps you by helping the communities in which you're located.

Enhance Vendor Relationships

You should be able to make it easier for your vendors to do business with you and for you to get information from and to them. If you make it easier for your vendors to do business with you, their costs will be lower and some portion of those savings can be passed on to you.

Develop guidelines, set standards and quality measures to monitor and evaluate vendor performance and your organization's performance. Develop vendor communications programs. Document your procurement and payment policies and guidelines. A vendor handbook with guidelines and procedures for doing business with your company can eliminate many future problems. If vendors have written guidelines that spell out when purchase orders are required, the approval levels and signing authority, you reduce the likelihood of incurring unnecessary expenses. Not only does this enhance vendor relations, it protects your company's risk of exposure to claims and even fraud.

Where appropriate, send electronic inputs to vendors and get electronic inputs from them using EDI, ERS, Procurement Cards or the Internet. Approve, pay and reconcile electronically. Provide vendors with online access to purchasing and accounts payable information to reduce and eliminate errors and telephone inquiries requiring manual intervention. Consider using touch-tone inquiry/response systems and the Internet.

Enhancing the process by which you do business with your vendors can help your bottom line.

How to Get Started

Managing your vendor file is team effort. Your team needs knowledge and expertise in your industry and your systems as well as general expertise in purchasing and accounts payable. At a minimum, your Accounts Payable, Purchasing and Information

Technology organizations should be involved.

Some of the expertise you'll need may require the use of external resources. When you first begin to manage your vendor file, bring in outsiders to augment your internal staff to ensure that the resulting team has the full complement of skills and resources needed to achieve the desired goals.

Make Vendor Management a Process

In an attempt to speed up the process and reduce costs, many firms skip or cut corners on some activities. They are often disappointed with the results. Some lose sight of the goals and benefits. Others may treat the process as a one shot project.

Remember, managing your vendor file is a process not a project.

SIDEBAR

RECAP recently analyzed vendor files and payment data for fifty large organizations (with 20,000 or more vendors), and found some surprising patterns:

- Typically, the top 100 vendors by dollar volume account for fifty percent of the total dollars spent but only ten percent of the invoice transaction volume.
- Typically, the top 10 vendors by transaction volume account for fifty percent of the invoices processed but only ten percent of the total dollar spent.
- Between one third and one half of all invoices are for less than \$100 and another third are for between \$100 and \$500. The cost associated with processing an invoice has little to do with the amount of the bill. The number of payments for under \$5 or \$10 is surprisingly high in many companies.
- Typically, between 20 and 80 percent of all vendors in a company's vendor file have had no activity with the most recent 12 months. Even more startling, 50 percent of those with activity, have received exactly one payment.
- IBM, AT&T, other telephone companies and States were the vendors most frequently present with redundant and obsolete records.